

CITY OF ALAMEDA

CITY COUNCIL

Mayor, Beverly Johnson
Vice Mayor, Doug deHaan
Councilmember, Marie Gilmore
Councilmember, Frank Matarrese
Councilmember, Lena Tam

ELECTED OFFICIALS

City Auditor, Kevin R. Kearney
City Treasurer, Kevin Kennedy

CHARTER OFFICERS

Interim City Manager, Ann Marie Gallant
City Attorney, Teresa L. Highsmith
City Clerk, Lara Weisiger

EXECUTIVE MANAGEMENT TEAM

Deputy City Manager, Administrative Services, Lisa K. Goldman
Deputy City Manager, Development Services, Jennifer Ott

Economic Development Director, Leslie Little
Fire Chief, David Kapler
Human Resources Director, Karen Willis
Library Director, Jane Chisaki
Interim Police Chief, Michael Noonan
Public Works Director, Matthew T. Naclerio
Recreation and Parks Director, Dale Lillard

Executive Director, Housing Department, Michael T. Pucci
General Manager, Alameda Municipal Power, Girish Balachandran



July 27, 2010

Honorable Mayor and Members of the City Council:

Transmitted herein is the recommended Annual Budget for Fiscal Year 2010-2011 and the Budget Forecast for Fiscal Year 2011-2012.

Throughout this past fiscal year, the national and regional economies have remained virtually stagnant. This economic status quo continues to affect revenues at all levels of government, and none more serious than that experienced by city government which is dependent upon property tax growth, sales and related consumer taxes to provide basic municipal services.

Cities continue to battle with the State of California to retain property taxes, gas taxes and redevelopment tax increment which the Governor and legislature have utilized in the past as budget balancing solutions for the massive state deficit accumulated these past years. The two-year 'take' of \$5.3 million in Redevelopment Agency tax increment in FY09-10 and FY10-11 will impact economic development projects and programs in future years, as the ability to bond for land based municipal debt at reasonable interest rates is limited due to the risk in the real estate market. Should gas tax revenues be reduced, 'borrowed' or delayed, public works programs such as street lighting, signal maintenance and operation, street signing and street striping will be affected.

Budget Strategies

The state of the economy required City management to work diligently in FY09-10 to re-tool department organizational structures, implement strategic reductions in force, and reduce targeted expenditures without impacting community service levels. The results of these offensive and defensive organizational recession strategies have resulted in a projected June 30, 2011 available (cash) fund balance in the General Fund stabilized at \$12.1 million. Projected available (cash) fund balances in all funds, detailed by fund and fund group within the Financial Summaries of this document, total \$124.6 million at June 30, 2011.

The FY10-11 Annual Budget and FY11-12 Budget Forecast were successfully developed and balanced as a result of the prior fiscal year financial foundation.

Revenues projected in all funds employ limited growth assumptions in economic forecasts for Alameda – averaging .5% - 2%. Expenditures were based upon the prior fiscal year requisite reduction. During budget preparation, other cost containment measures and expenditure shifts to other funds, as appropriate, were also required. However, health care costs, contract commitments and increases in costs of various goods and supplies have affected expenditures in some programs. Nonetheless, a solid financial foundation has been established for the City's *second* year of its 24-month fiscal stabilization plan.

Budget and Financial Policies

A City Council Financial Workshop was held June 19, 2010 at which *Financial Policies and Guiding Principles* were finalized based upon City Council initial discussion and direction in February 2009. The recommended City budget complies with City Council policy direction confirmed at that session. Specifically, this fiscal year, annual budget appropriations maintain prudent cash reserves and working capital; streamline systems and procedures for efficient and effective government operations; provide first line core municipal services such as police patrol, fire suppression and public works maintenance with City staffing; develop sufficient contingency reserves for asset replacement and operational risks; eliminate one time revenues as resources to balance the operating budget, and transfer these one time revenues to a Capital Improvement Discretionary Fund for capital projects yet to be determined.

Further, during the workshop, a fiscal forecast of the City's General Fund and its dependent Internal Service Funds (ISFs) was again presented. Internal Service Funds such as worker's compensation, information technology and risk management are projected at a near virtual recovery of the prior year's \$3.7 million negative cash balance. This negative cash was recovered through chargebacks to appropriate funds, and departments within funds, during the past 18 months, requiring operating departments to absorb these chargebacks within annual budget appropriations. With adoption of the FY10-11 annual budget, the internal service fund negative cash is now projected at less than \$200,000, an amount easily recoverable to zero with careful budget management this fiscal year.

Program-Performance-Based Budget

During the FY09-10 budget financial workshop held in February 7, 2009 the program-performance-based budget was originally proposed and approved, eliminating department or division wide budget allocations, and resulting in budget allocations to an individual *program* - a group of related activities performed by organization units for the purpose of accomplishing a function for which the City is responsible. Identifying and allocating resources – personnel, supplies, equipment etc. – to programs, creates transparency in budget reporting and clearly communicates cost of specific services to policy makers and community constituencies.

This conversion to a program-performance-based budget and financial reporting system required two fiscal year budget cycle to mature in data collection and documentation. Management began this process in August 2008 by focusing on past defined department missions (purpose statements), refining these and formulating from this purpose statement, departmental programs which were being delivered in conformance with its mission. Program descriptions were prepared; key program objectives were defined; and measurements of program performance were developed. Executive management continued refinement to programs, objectives and performance measurements this fiscal year.

Executive Summary

A City Manager executive summary has been incorporated into the budget document. An organization chart of various policy and advisory groups has been included, to illustrate the numerous components providing input into decision making within the organization. In FY10-11, executive management will focus on realigning these policy-driven components with the organization's major functions in order to streamline government processes, reduce redundant systems, and develop more integrated, holistic policy discussion and recommendations among advisory groups.

A citywide organizational chart identifies functional workgroups in key areas such as Administrative Services; Community Services; Development Services; Public Safety Services; and Public Services. The budget document itself is again organized into these major functional categories, with department program budgets included within these functions.

A statement, articulating executive management philosophy when utilizing program-performance-based-budgeting, is presented in *Managing for Results*. A vision and operational standard for the organization in this climate of change is outlined in *Organizational Focus*. *Budget Highlights* will ultimately be included within this section, and will summarize major workplan initiatives; changes in financial policy direction; major fiscal issues and financial management concerns resulting from the City Council budget discussion and adoption scheduled for the July 27, 2010 joint meeting agenda.

Financial Summaries

Financial data for all funds is included in this section of the text. These tables, charts, graphs and forecasts should be familiar in format, as all are similar – if not identical – to those staff has used in its year-end and quarterly report summaries to the City Council since September 2008. It is important to note, however, that this is a *budget* not a *financial report*; the latter reports total fund balance which includes cash, due to's and due from's, assets and liabilities; the former reports *available fund balance* which is cash only. Thus, when balancing annual budget expenditures against budget revenues, should available fund balance be required in certain funds for budget purposes, City Council can be assured that number reflects available *cash* balance not *fund* balance.

The recommended annual operating and capital expenditure budget - all funds - for Fiscal Year 2010-2011 totals approximately \$208.6 million. This proposed budget includes approximately \$195.1 million in revenues and utilization of \$13.5 million in available (cash) fund balance in certain funds – specifically special revenue, capital project, debt service and redevelopment agency funds. This draw-down of cash balances in these fund groups are quite standard, as capital projects are completed, grant funds are utilized, and bond proceeds are expended for designated uses.

The recommended General Fund budget in FY10-11 totals \$71.0 million; it does *not* utilize any available cash balance. The various budget balancing strategies adopted to date have resulted in a fiscal plan that preserves 100% of the General Fund's cash balance and ensures prudent fiscal reserves in this uncertain national and regional economic period in municipal finance. The available cash General Fund balance at June 30, 2011 is projected at \$12.1 million.

The budget for the General Fund in FY11-12, once finalized, may require a draw-down of this cash balance unless expenditures are reduced further. Projected increases in health care, incremental increases in other Post Employment Benefits (OPEB) and debt service, as well as Public Employee Retirement System (PERS) unknowns, could significantly impact this cash balance in FY11-12 and thereafter. However, it is anticipated that further evolution of management organizational initiatives, improved cost containment through recovery in the housing and consumer markets could improve the General Fund revenue forecast by close of Fiscal Year 2011-2012.

More detailed information on all funds - revenues and expenditures - is provided within the Financial Summaries section of this budget document. A detailed description of key revenue impacts and expenditure issues will be outlined in the budget staff report for the July 27, 2010 City Council meeting.

Conclusion

In FY2010-2011, at the completion of a two-year program-performance budget cycle, the city organization will have matured in its budget and financial reporting systems to a more transparent and cost-center approach to providing municipal services. Further, the program-performance-based budget will ensure through its quarterly reporting that departments are utilizing resources effectively and efficiently in program service delivery.

Consistent with the standards of sound budget reporting established by the Government Finance Officer's Association (GFOA), the goal of this program-performance-based budget is to serve as:

- *a policy document* - one which reflects coherent, entity-wide budget and financial policies, strategies, missions, goals and objectives of organizational units, programs and services;
- *a financial plan* – one which includes and describes all operating, capital and debt service funds subject to appropriation, including revenues, expenditures and available cash balances of the total resources budgeted by the organization;
- *an operations guide* - one which describes activities, services or functions of each organization unit, including organization charts, performance measurements and personnel summaries;
- *a communications device* - one which is clear and transparent to the public by defining terms, summarizing complex financial information in tables, graphs or charts to ensure full disclosure of the City's resources to the general reader.

I am pleased to present this proposed two-year resource allocation plan that not only meets the financial challenges facing the City at present, but continues to provide quality programs and service levels that Alameda residents have come to expect from their City government. As we plan for the future in these difficult financial times, executive management staff is committed to working with the City Council to implement an ambitious vision for this unique community.

Respectfully submitted,



Ann Marie Gallant
Interim City Manager

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